

Message Text

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ACTION AF-06

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FM AMEMBASSY ADDIS ABABA

TO SECSTATE WASHDC PRIORITY 2518

INFO AMCONSUL ASMARA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY NAIROBI

AMEMBASSY MOGADISCIO

AMEMBASSY KHARTOUM

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E.O.11652: N/A

TAGS: ECON EINV EFIN ET US

SUBJ: EPMG NATIONALIZES BANKS AND INSURANCE

COMPANIES: US INTERESTS AFFECTED

SUMMARY: EPMG ANNOUNCED JAN 1 NATIONALIZATION OF ALL
BANKS, FINANCIAL INSTITUTIONS AND INSURANCE COMPANIES.

NATIONAL BANK OF ETHIOPIA (NBE) WILL ADMINISTER BANKS
AND FINANCIAL INSTITUTIONS WHILE MINISTRY OF COMMERCE
INDUSTRY AND TOURISM HANDLES INSURANCE COMPANIES.

"APPROPRIATE" COMPENSATION WILL BE PAID. US FIRMS'

BANKING AND INSURANCE ASSETS NATIONALIZED TOTAL US\$600,000

ABOUT US\$200,000 OF WHICH WE UNDERSTAND IS COVERED BY

OPIC INVESTMENT GUARANTEE. WE EXPECT FUTURE

NATIONALIZATIONS AND THERE IS SPECULATION THAT HOUSING AND

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TRANSPORT COULD BE AMONG NEXT TARGETS.

1. ON JANUARY 1, THE EPMG NATIONALIZED ALL BANKS, FINANCIAL INSTITUTIONS AND INSURANCE COMPANIES "IN LINE WITH THE ECONOMIC OBJECTIVES OF ETHIOPIA SOCIALISM." NATIONALIZED BANKS ARE: ADDIS ABABA BANK (40 PERCENT NATIONAL AND GRINDLAYS, UK; REMAINDER PRIVATE AND GOVERNMENT), BANCO DI ROMA (ITALIAN) AND BANCO DI NAPOLI (ITALIAN). FOLLOWING 14 INSURANCE COMPANIES NATIONALIZED: AFRICAN SOLIDARITY; ETHIOPIAN-AMERICAN LIFE, BLUE NILE, AFRO-CONTINENTAL, ETHIOPIAN GENERAL, IMPERIAL, INTERNATIONAL, LION, ETHIOPIAN NATIONAL, PAN-AFRICAN, UNION, RAS (CLOSED), ETHIOPIAN LIFE, AND RASAI. EPMG ALSO "NATIONALIZED" FOLLOWING PUBLIC ENTERPRISES: AGRO-INDUSTRIAL DEVELOPMENT BANK (AIDB); SAVINGS AND MORTGAGE BANK (FORMERLY SUBSIDIARY OF GOVERNMENT OWNED COMMERCIAL BANK OF ETHIOPIA (CBE), AND NATIONAL (EX-IMPERIAL) HOME OWNERSHIP AND SAVINGS PUBLIC ASSOCIATION.

2. NBE WILL "CONTROL AND SUPERVISE THE OPERATION" OF BANKS AND "ADMINISTER" THREE FINANCIAL INSTITUTIONS. MINISTRY OF COMMERCE INDUSTRY AND TOURISM WILL ADMINISTER INSURANCE COMPANIES WHICH WILL "CONTINUE TO SERVE THE PUBLIC IN ACCORDANCE WITH INTERNATIONAL INSURANCE AGREEMENTS." EPMG WILL PAY "APPROPRIATE COMPENSATION IN THE FUTURE" TO SHAREHOLDERS OF NATIONALIZED CONCERNS. INDIVIDUALS ATTEMPTING TO MANIPULATE BANK ACCOUNTS OF NATIONALIZED FINANCIAL INSTITUTIONS OR "COMMITTING OTHER ILLEGAL BANKING PRACTICES" WILL BE COURT MARTIALED.

3. TOTAL CAPITAL OF NATIONALIZED BANKS ABOUT US\$5.4 MILLION AND THEIR SHARE OF CBE-DOMINATED BANKING SYSTEM MARKET BETWEEN 20-25 PERCENT. THERE ARE ONLY 30 NATIONALIZED BANK BRANCHES COMPARED TO 92 CBE BRANCHES. INSURANCE COMPANY ASSETS TOTALED US\$16 MILLION AND ABOUT HALF OF TOTAL INSURANCE ISSUED REINSURED ABROAD.

4. US INTERESTS NATIONALIZED INCLUDE:

A. ADDIS ABABA BANK. THROUGH FIRST NATIONAL CITY BANK'S PARTICIPATION IN NATIONAL AND GRINDLAYS, FNCB HAD A 16 PERCENT SHARE OF ADDIS ABABA BANK VALUED AT ABOUT US\$400,000;

B. ETHIOPIAN-AMERICAN LIFE INSURANCE; ACCORDING TO FIRM'S MANAGER, AMERICAN LIFE INSURANCE CO. OF WILMINGTON, DELAWARE, HAD ABOUT US\$200,000 INTEREST WHICH COVERED BY OPIC INVESTMENT GUARANTEE. (WE WILL REPORT ASAP PERCENTAGE OF TOTAL CAPITAL INVOLVED.) IN ADDITION, THERE IS MANAGEMENT CONTRACT BETWEEN THE FEDERAL HOME LOAN BANK OF LIMITED OFFICIAL USE

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BOSTON AND THE NATIONAL HOME OWNERSHIP AND SAVINGS PUBLIC ASSOCIATION RELATING TO THE BOLE HOMES PROJECT AND POSSIBLY MINOR REINSURANCE INVOLVING US INSURANCE COMPANIES.

5. NBE GOVERNOR TAFARRA DEGUEFFE, REPRESENTATIVES OF THE DIRG AND

OTHER EPMG OFFICIALS MET SEPARATELY WITH MANAGERS OF THE FINANCIAL
AN
D
BANKING INSTITUTIONS, AND INSURANCE COMPANY EXECUTIVES. ACCORDING
TO ETHIOPIAN HERALD, TAFERRA TOLD BANKERS THEIR SERVICES AND
RELATION
S
WITH CUSTOMERS SHOULD CONTINUE AS USUAL. NBE NOW CONTROLS BANKS'
OPERATIONS AND RESPONSIBLE FOR IMPROVEMENTS IN MANAGEMENT. BANKS
WILL CONTINUE TO HONOR ALL AGREEMENTS MADE WITH CUSTOMERS. TAFERRA
SAID NATIONALIZATION WILL HELP GOVERNMENT EXPAND BANKING SERVICES
TO SMALL MERCHANTS AND FARMERS IN ORDER TO STIMULATE ECONOMIC
GROWTH.
IN SOME CASES PROFIT WILL BE SACRIFICED FOR THE NATIONAL INTEREST
AND DIVIDENDS PREVIOUSLY PAID TO SHAREHOLDERS WILL GO TO EPMG TREA-
SURY TO COVER BUDGETARY SHORTAGES FOR DEVELOPMENT PROJECTS.

6. ACCORDING TO THE HERALD, CONTROLLER OF INSURANCE, TILAHUN HAILE
SELASSIE SAID BETTER DISCIPLINE AND A HEALTHY MANAGEMENT CLIMATE IN
THE INSURANCE INDUSTRY CAN DEVELOP ONLY WHEN THE INDUSTRY STATE
CONTROLLED. MANAGER OF ETHIOPIAN-AMERICAN LIFE INSURANCE TOLD
EMBOFF
THAT GOVERNMENT OFFICIALS CHAIRING MEETING WITH INSURANCE COMPANY
EXECUTIVES SHORT ON INFORMATION REGARDING NATIONALIZATION.
COMPANIES
TOLD TO CONTINUE BUSINESS AS USUAL; READY THEIR AUDITORS TO CARRY
OUT
A SPECIAL GOVERNMENT DIRECTED AUDIT UNDER NBE SUPERVISION; AND
PROVID
E
THE GOVERNMENT WITH A LIST OF EMPLOYEES AND SHAREHOLDERS. POLICY
PROVISIONS AND EXISTING CONTRACTS ARE TO REMAIN IN FORCE. EX-
ECUTIVES AT MEETING EXPRESSED CONCERN ABOUT EFFECT OF
NATIONALIZATION
ON REINSURANCE "TREATIES" DUE TO EXPIRE THIS YEAR. OFFICIALS UN-
ABLE TO GIVE CLEAR ANSWER BUT SAID THAT INSURANCE COUNCIL (MADE UP OF
MINISTERS OF COMMERCE, INDUSTRY AND TOURISM; FINANCE;
COMMUNICATIONS;
NATIONAL COMMUNITY DEVELOPMENT AND PLANNING PLUS THE NBE GOVERNOR
AND THE CONTROLLER OF INSURANCE) WILL SOON MEET TO CONSIDER THIS
PRO-
BLEM AND TO WORK OUT DETAILS OF NATIONALIZATION. (ACCORDING TO BRITIS
H
COLLEAGUE, INSURANCE COUNCIL ESTABLISHED SEVEN YEARS AGO AND HAS
MET ONLY TWICE SINCE.

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7. COMMENT: WHILE RADIO ETHIOPIA WARNED PUBLIC ON DECEMBER 31 THAT
AN "IMPORTANT ANNOUNCEMENT" WOULD BE MADE JANUARY 1,

NATIONALIZATION

MOVE APPARENTLY CAUGHT MOST PEOPLE OFF GUARD. THERE IS A FEELING AMONG EMBASSY CONTACTS THAT DIRG HAS TAKEN ANOTHER PRECIPITOUS STEP

LEAVING BUREAUCRACY SCRAMBLING TO DEVELOP STRATEGY FOR IMPLEMENTING

POLICY. MOVE APPEARS TO HAVE LOW ECONOMIC BUT HIGH POLITICAL CONTENT. JANUARY 2 ETHIOPIAN HERLAD APPLAUDS NATIONALIZATION AS PART OF EPMG ASSAULT ON "EXPLOITATION AND ECONOMIC PARASITISM" AND "FREEING KEY INDUSTRIES FROM THE STULTIFYING GRIP OF EXPLOITATIVE CAPITALISM". UNLESS EPMG PREPARED TO STEP IN WITH LARGE AMOUNTS OF CAPITAL, INSURANCE STILL WILL REQUIRE HEAVY FOREIGN INVOLVEMENT TO CONTINUE REINSURANCE. BANK NATIONALIZATION SYMBOLIC GESTURE SINCE GOVERNMENT-OWNED CBE ALREADY DOMINATES BANKING BUSINESS.

HOWEVER,

WE ALSO HEAR THAT THE EPMG MAY HAVE NATIONALIZED THE TO ITALIAN BANKS INTERALIA TO PREVENT WHAT THEY CONSIDERED ILLEGAL TRANSFERS OF ASSETS ABROAD BY FOREIGN BUSINESSMEN PRIMARILY ITALIANS, GREEKS AND ARMENIANS. ACTION TAKEN VIS-A-VIS OTHER THREE FINANCIAL INSTITUTIONS PROBABLY CONTINUATION OF EPMG EFFORT TO INCREASE DIRECT CONTROL OVER PUBLIC ENTERPRISES. RUMORS ABOUNDING CONCERNING LIKELY

NEXT TARGETS FOR NATIONALIZATION, NOTABLY IN HOUSING AND TRANSPORT, BUT WHILE WE EXPECT FURTHER NATIONALIZATIONS IT IS STILL TOO EARLY TO PREDICT DETAILS AND EXTENT OF FUTURE MOVES.

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